

DRAFT

PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

**Telecommunications Division
Market Structure Branch**

**RESOLUTION T-16680
August 22, 2002**

R E S O L U T I O N

RESOLUTION T-16680. VERIZON CALIFORNIA, INC. (U-1002-C).
ORDER ACCEPTING SUBJECT TO REFUND ANNUAL INTRASTATE
EARNINGS ADVICE LETTER FILING IN COMPLIANCE WITH
DECISION 98-10-026.

BY ADVICE LETTER NO. 10059 FILED ON APRIL 2, 2001.

SUMMARY

This Resolution accepts Verizon California, Inc.'s (Verizon) intrastate earnings advice letter filing subject to any corrections or adjustments that may be appropriate as a result of any Commission decision.

Since sharing has been suspended in Decision (D.) 98-10-026, there is no immediate impact on rates as a result of this filing.

BACKGROUND

New Regulatory Framework (NRF)

Decision 98-10-026, resulting from the third triennial NRF review, adopted the suspension of sharing effective January 1, 1999, continued the requirement for the reporting of rates of return, phased out existing Z factor adjustments and eliminated new Z factor adjustments, and included a provision for the consideration of only a very limited set of exogenous costs, and the continued rate caps and floors.

VERIZON'S ANNUAL RATE OF RETURN FILING

Pursuant to D. 98-10-026 Verizon filed its Annual Rate of Return advice letter, which is to be filed every April 1 for the purpose of reporting its rates of return and the market-

based, benchmark, ceiling, and floor rates of return last found reasonable. In this filing Verizon reported an annual rate of return (ROR) for the year 2001 to be 13.24%. Verizon also includes a 16.10% ROR which reflects estimated directory revenues for 2001. Other references reported in Verizon's filing included the following rates of return:

Market-Based	10.50%
Ceiling	15.50%
Floor	7.75%

NOTICE/PROTESTS

Verizon states that a copy of Advice Letter No. 10059 had been mailed to interested utilities and/or parties. Notice of Advice Letter No. 10059 was noticed in the Commission's Daily Calendar of April 5, 2002.

The Commission's Office of Ratepayer Advocates (ORA) filed a timely protest to this advice letter on April 11, 2002. ORA asked that the Commission to order Verizon to do several things.

1. Refile its earnings filing to publicly state its rate of return.
2. Amend AL 10059 to state its current 12% benchmark rate for reference.
3. Include directory revenues and expenses in its ROR.
4. Refile this AL to reflect any commission adopted accounting adjustments that result from phase 1 of I.01-09-002.

ORA further asked that the Commission order the suspension of sharing to be lifted, and create a memorandum account to book Verizon revenues subject to refund pending the outcome of the NRF review. Finally ORA asked the Commission to order an audit of Verizon for the years 1999-2001 to commence immediately.

Verizon filed a reply on April 18, 2002. In the reply Verizon states that the last reported benchmark ROR was 13% not 12%, and that in any event the reporting of the benchmark rate of return is incorrect as a benchmark does not exist without sharing. Verizon also states that the rate of return should not contain directory revenue for the same reasons it opposed such an inclusion in AL 9944: that to do so would be incorrect, misleading, burdensome, and would prejudice the outcome of the NRF proceeding. Verizon objected to the ordering of audits, or the reinstatement of sharable earnings in this filing.

Verizon had no objection to stating its ROR publicly, while retaining the workpapers as confidential.

The Utilities Reform Network(TURN) filed a protest on April 22, 2002. TURN made two requests: that Verizon be required to include directory revenues in its intrastate earnings calculation, and that Verizon resubmit earnings for the years 2000, and 2001 in accordance with any decision the Commission makes in R.01-09-001/I.01-09-002.

Verizon submitted a response to TURN's protest on April 29, 2002. In that response they restated their opposition to yellow page revenue being included its intrastate earnings calculation, and Verizon points out that it has already agreed to amend its earnings reports following a NRF decision.

DISCUSSION

D. 98-10-026 suspended sharing and reduced the annual sharable earnings filing to an information only type of report. It is important that this report reflect the correct information including appropriate citations to NRF rate of return levels as well as including all intrastate above-the-line revenue sources. Resolution T-16656 ordered Verizon to submit its intrastate earnings report and its separated results of operations reports on two basis one with, and one without the Yellow Page directory revenue Verizon would have received had it not changed its contract with VIS.

We will not address ORA's request to establish a benchmark ROR. Instead, we defer that issue for potential resolution in the current NRF proceeding.

In the 4th triennial NRF review, it is expected that the Commission will address, among other things, the issue of suspended sharing, as well as the results from the NRF audit. Those issues will not be decided in this filing. The Commission's examination of the NRF rules and audit results, as well as any future audits, could have an effect on the year 2001 reported results of operations. In order to preserve the Commission's options, Verizon's ROR will be accepted subject to any corrections or adjustments that may be appropriate as a result of any Commission decision.

The draft resolution of the Telecommunications Division in this matter was mailed to the parties in accordance with PU Code Section 311 (g)(1). Comments were filed on (date) by (names of parties) and reply comments were filed on (date) by (names of parties). [disposition of comments/revisions to draft resolution].

FINDINGS

1. Advice Letter 10059 was filed in a timely manner.
2. It included two ROR's- one including an estimate of directory revenue, and one not including directory revenue.
3. The reported ROR's are not proprietary
4. The ROR including an estimate of directory revenue was 16.10%.

5. The ROR not including directory revenue was 13.24%
6. A timely protest to this advice letter was filed by ORA.
7. ORA asked that directory revenue be included in the ROR, that the benchmark ROR be reported, that the suspension of sharing be lifted, and that the Commission immediately order audits of Verizon.
8. A timely protest was filed by TURN.
9. TURN also asks that directory revenue be included in the ROR, and that Verizon amend its results following a decision in the NRF proceeding.
10. Resolution T-16656 required Verizon to submit three of its monitoring reports on two basis- one with, and one without Yellow Pages directory revenue.
11. The 16.10% ROR which includes directory revenue should be accepted subject to any corrections or adjustments that may be appropriate as a result of any Commission decision.
12. The reference RORs are as follows:
 - Market-Based – 10.5%
 - Ceiling – 15.5%
 - Floor – 7.75%
13. The issue of the level of benchmark ROR to be used as a reference is deferred for potential resolution to the pending NRF review proceeding.
14. Sharing is currently suspended.
15. The future of sharing (i.e. continued suspension, permanent elimination, reinstatement, or some other modification) is an issue in the NRF review.

THEREFORE IT IS ORDERED THAT:

1. Verizon's Annual Intrastate Earnings advice letter reporting its 2001 rate of return including an estimate of directory revenue shall be accepted subject to any corrections or adjustments that may be appropriate as a result of any Commission decision.

This Resolution is effective today.

I hereby certify that this Resolution was adopted by the Public Utilities Commission at its regular meeting on August 22, 2002. The following Commissioners approved it:

WESLEY M. FRANKLIN
Executive Director